

Assessing Institutional Characteristics on Microcredit default in Kenya: a Comparative Analysis of Microfinance Institutions and Financial Intermediaries

Muturi Phyllis Muthoni

Department of Business Administration and Management in Dedan Kimathi University of Technology, School of Graduate Studies and Research, P.O Box 657-10100 –Nyeri, Kenya

Abstract

A major concern on microcredit repayment remains a major obstacle to the Micro Financial Institutions (MFIs) and Financial Intermediaries (FIs) in Kenya. The health of MFI sector in Sub Sahara Africa (SSA) is a cause of concern due to the increased portfolio at risk (PAR). This region records the highest risk globally with its PAR 30 greater than 5 percent. This study sought to investigate causes of loan default within MFIs and Financial Intermediaries (FIs) in Kenya and specifically to evaluate the influence of institutional characteristics on loan default in MFIs and FIs. This study was based on Pecking Order Theory and Grameen Bank model and on positivism philosophy which adopts a quantitative approach to investigate the phenomena and uses descriptive survey design to investigate the populations by selecting samples to analyze and discover occurrences. A target population of 294 MFIs institutions and 76 Financial Institutions was used. A multistage sampling procedure was used and a sample of 106 MFIs and 40 FIs selected. Random sampling was used to select the respondents since each participant had an equal opportunity to be selected. Primary data was collected by use of a questionnaire with closed and open responses presented on a five Likert scale, making it easy for the respondent to fill. Data was analyzed by quantitative methods by use of SPSS; Version 21. Descriptive statistics and inferential statistics and some tests were carried out at 95 percent confidential level such as; F- tests and t -tests to examine parameters that were significant with a p value less than 5% being considered significant. Data was presented in form of frequency tables, bar charts and pie charts for easy interpretation of results. A multiple regression model and Pearson correlation were used to establish relationships among the variables. The findings of the study indicated that institutional characteristics were significant among MFIs and FIs but with some differences in the parameters measured. The findings of the study will be of significance to policy makers, MFIs, FIs, small businesses, universities and the general public as a source of knowledge for future reference.

Key Words: Loan Default, Microcredit, Microfinance Institutions, Portfolio at Risk (PAR), Financial Intermediaries (FIs).

Introduction

Microcredit is a tool that enhances economic development to the poor in the society and an important strategy being used to reduce poverty among many countries across the globe. Microcredit is as an 'extremely small loan given to impoverished people to help them become self-employed' (Nawal, 2010). The world has over 7,000 Microfinance Institutions (MFIs) that serve over 25 million clients (Crabb and Keller, 2006). The government of Kenya has introduced various support initiatives for provision of credit to Micro and Small Enterprises (MSEs). These initiatives include provision of Public Entrepreneurial Funds (PEFs) such as; Women Enterprise Funds (WEF), Youth Enterprise Development Fund (YEF), Kenya Industrial Estates (KIE) Fund and Uwezo Fund. These funds are disbursed by some Financial Intermediaries (FIs) that are willing to partner with the government and are set aside to; improve competition of MSEs, to promote social-economic development, reduce poverty among entrepreneurs, increase financial accessibility, productivity and innovation (Gitau and Wanyoike, 2014). The funds are disbursed to promote economic empowerment among youth and women.

Microcredit though has a positive effect on improving peoples' livelihoods in many parts of the world, has experienced several hardships over the years and default is major concern in many countries in the world. Microfinance Focus (2011) report highlights a numbers of cases that have been greatly affected for instance; a) the microfinance sector in Nicaragua in 2009 - 2010 suffered major crisis as a result of both financial downturn and the domestic No Pago (No payment) movement that was fuelled by political activists. The portfolio at risk in these MFIs was at 19 percent despite many write offs while the No Pago group advocated for a moratorium law that allows debtors a 10 year amortization period with a very low interest rate (less than 8 percent). This greatly reduced the total portfolio granted by MFIs to the poor b) likewise Pakistan in 2010 experienced difficulties in loan recovery in the sector after heavy monsoon rains caused havoc in the country that resulted in people losing

property, raw materials, tools and work spaces which was affected means of livelihood and experienced difficulties in meeting their loan obligations. The health of MFI sector in Sub Sahara Africa (SSA) is a cause of concern due to the increased portfolio at risk (PAR) {MIX, 2011}. The region records the highest risk globally whose PAR 30 is greater than 5 percent, coupled by poor reporting, control systems, poor information systems and credit management (*ibid*). Most countries in Sub-Saharan Africa face problems in microcredit debt payment (Buss, 2005) and as a result most MFIs have unreliable financial and portfolio information and are poorly equipped in managing their credit portfolio or protecting customers' savings (CGAP, 2013).

Kenya's borrower rate is rated the second largest (Mix and CGAP, 2010). However, the case of default is still raising concern in the MFIs and FIs sectors. The default rate among MFIs' sector is relatively higher compared to commercial banks with default rates ranging from 10% -20% while commercial banks have a less than 5% default rate (Kiraka et al., 2013). In their study, the constituency women enterprise recorded 20-30% default rate. Youth Enterprise Development Fund (Yedf) in 2009, disbursed funds to 8586 youth groups totaling Ksh 376,923,810 only was 83,732,085 (22.2%) repaid while the outstanding balances of 293,191,724 (77.8%) was not paid (YEDF, 2009).

Microfinance has been viewed by developing countries as a strategy for poverty alleviation and human enhancement (Halvoet, 2006). Microfinance Institutions include microfinance banks, wholesale MFI's, development institutions and insurance companies (AMFIK, 2014). Microfinance is defined as "the provision of financial services to the poor and low income clients who traditionally lack access to banking and related services" (Kamanza, 2014). Gomez and Santor (2008) define MFI as "an organization (mostly non-profit), providing financial and social intermediation services to low-income individuals, including self-employed". Halvoet (2006) argues that in order to reach the unbankable poor and reduce costs on transaction, use of groups to intermediate is paramount. This increases chances of repayment through peer pressure and reduces time consumed on loan proceedings. According to World Bank (2006), the developing economies especially Asia, Africa and Latin America organizations deliver microfinance services that are either formal or informal. The organizations are categorized as either traditional or alternative depending on the level of community participation. The traditional microfinance is characterized by (a) lending of funds to the poor (b) external donor funding (c) uses the Grameen bank model and (d) less participatory and community driven.

In Africa, poverty is a multi-faced problem caused by low literacy levels, limited resources, low health and education services, high unemployment and lack of adequate incomes to provide basic needs to the poor (Mwaniki, 2006). Many people in Africa, about 50 per cent mostly women, live below the poverty line (less than 1 dollar per day), despite efforts made by various governments and development partners (*ibid*). Financial assistance is therefore considered as an anti-poverty reduction tool (Mwaniki, 2006; Chowdbury, 2009; Sjomsoeddin, 2010).

The importance of small businesses has been evident in many economies in Africa where they account for 90 percent of all enterprises and employ about 80 percent of people in any given country within the continent of Africa (Reinecke, 2002) and in Kenya, they account for 80.6 percent of the total employment in the economy (RoK, 2011). Small and Medium Enterprises (SMEs) are very important instruments of economic and social development in Kenya (Langat et al., 2012; Wawire and Nafukho, 2009). According to RoK (1992), small-scale enterprises contribute significantly to the economy in terms of: provision of output of goods / services, creation of jobs, manpower development, strengthening forward and backward linkages in all sectors, supporting industrialization, increasing savings and investments to Kenyans and encouraging use of local resources. One of the constraints facing the sector is finances (RoK, 2005; Migiro, 2005). Financing of small businesses is of interest to all policy makers and all those undertaking research due to their significance in the private sector (Beck et al., 2008). Accessibility of credit from commercial banks has been a challenge to SMEs both from formal and informal sectors that lack collateral required by these institutions. Therefore, microcredit provides an alternative financial service to these entrepreneurs due to its availability and accessibility for business expansion and wealth creation (*ibid*).

In Kenya, MFIs have 1,732,290 active clients in the sector and excluding banks clients' total is 914,859 ((AMFIK, 2013). The main banks are Equity bank which consists of 72 per cent total assets, the rest are K-REP, Post Bank and Jamii Bora Bank. KWFT become a fully pledged bank named Kenya Women Finance Bank in 2014; others are still Deposit Taking Microfinance (DTMs) such as SMEP, Uwezo, REMU and Faulu. The microfinance institutions have received substantial support from both bilateral and multilateral donors (Chowdbury, 2009). By December 2012, a report showed that MFIs had 669 branches across the country. According to the report, Nairobi has the highest (136 branches) followed by Rift Valley (112) and Central region

(90) and the least branches are found in Western (32) and North Eastern (5) branches. The sector has employed 12,377 staff and the sector without the banks has 4,856 (AMFIK, 2013).

According to CSFI (2011), the Microfinance Industry has experienced a number of challenges namely; low funding, loan default rates increasing and therefore needs sustainability in poverty eradication. According to ACCA (2011), management of information asymmetry to detect early signs of those who are likely to default is paramount in avoiding serious cases of delinquencies. This calls for proper investment in resources such as; management skills, human and capital. This in return facilitates the growth of Microfinance Industry. A report by FSD Kenya (2009) indicated that despite the growth of Microfinance Industry, still 33% of Kenya's population cannot access finance, hence the need to campaign to this population through education to the unbankable population.

According to AMFIK (2013), the group lending model by December 2012 had a better portfolio than the individual lending model. Portfolio at risk (PAR) shows all arrears of outstanding loans. This report showed that loan default among the individuals was at 13.7% while groups rated at 5.9%, any amount over 5 percent calls for concern (United Nations, 2011). Some of these MFIs indicated very high PAR such as; Rafiki DTM(30.8%), Milano Financial Service Ltd (17.2%), SMEP(17.2%) and Jamii Bora(15.8%) and have had their PAR 30 at high levels over the last consecutive three years as per the report.

Loan default appears to be a major concern everywhere. Moti et al., (2012) defines default as 'loss arising from a borrower who does not make payments as promised' also called credit risk. A report from Pamoja (2010) indicated that in Kerugoya District loan default advanced to groups increased from 7.17 percent to 28.22 percent. This affects the sustainability capacity of MFIs. A study by Nandhi (2010) on loan default through group lending found out 27 percent of the members defaulted intentionally. Some defaulted in the second cycle and others ran off having the others to pay for them. A study by Kiraka et al., (2012), noted that WEF had high default rates between 10-20 percent as recorded in most MFIs in Kenya while commercial banks have less than 5 percent. The current study examined institutional characteristics both in MFIs and FIs disbursing public entrepreneurial funds in Kenya.

The Statement of the Problem

Both Microfinance Institutions and the Kenyan Government have initiatives to reduce poverty among the poor through provision of microcredit and disbursements of funds to youth and women respectively. The issue of loan default is a major concern in Kenya as per the AMFIK (2013). When loans are disbursed, it is not clear how the money is utilized and the follow up by lenders is a challenge. Many credit institutions have registered heavy losses as a result of loan default (Kiraka et al., 2013; Bichanga and Aseyo, 2013), YEDF for example registered an outstanding balance of 77.8% out all loans that were disbursed (YEDF, 2009). Loan default causes the defaulter to lose chances of accessing more credit in future while the lender increases losses and non-performing loans which consequently reduce funds to advance to more businesses and risks institution's sustainability. The success of credit institutions largely depends on management of credit advanced and therefore the need to minimize loan default rates. This study therefore sought to investigate factors that cause high loan default in both MFIs and FIs with an aim of reducing portfolio at risk in these institutions and making recommendations to MFIs, FIs and policy makers.

Objectives of the Study

The purpose of this study was to investigate causes of microcredit default within MFIs and FIs disbursing Public Entrepreneurial Funds (PEFs) in Kenya in order to enhance loan recovery and viability of lending institutions. The study sought to evaluate the influence of Institutional characteristics on loan default within MFIs and FIs.

Research Hypothesis

The research sought to address the following hypothesis;

H_{01} : Institutional characteristics are not significant in influencing loan default MFIs and FIs.

Significance of the Study

The study aimed at carrying out a comparative study on factors that affect loan default among MFIs and FIs. The results will be beneficial to small businesses, financial institutions, policy makers and scholars by introducing a new theory on causes of loan default within financial institutions.

Scope of the Study

The study covered MFIs and FIs disbursing microcredit in four regions out of eight regions in Kenya namely: Nairobi, Rift valley, Central and Eastern Regions. According to AMFIK (2013), these regions have been selected due to high outstanding loans and high number of branches.

2. Literature Review

Microfinance is the provision of financial services to the unbanked and under-banked households and small businesses (Reserve Bank of Zimbabwe, 2012). Globally microfinance fulfills one objective of facilitating accessibility of financial services to the “poor and marginalized sections of the community” (ibid). MFIs provide small loans and at times also expand their products to include micro-deposit and micro-insurance products (Orrick et al., 2001). Microfinance has been a channel through which the poor alleviate poverty by adopting the following strategies as outlined by Dadzie et al., (2012); (a) engaging the informal economy whereby 50 percent of people derive their source of livelihood (b) helps in mobilization of micro-saving therefore expanding the MFIs deposits and increase the capital base of these institutions (c) mostly invest in women hence increases economic equality and improves the life of women and their households. They are empowered with skills, education and economic rights (d) facilitates national and international money remittances (e) facilitates development of local private sectors and helps to invest in innovation (f) promotes slum conditions for slum dwellers such as homes and income generation activities and (g) promotes rural areas and food production. This promotes food security hence geared towards achievement of MDGs.

Characteristics of Microfinance

Microfinance has four features namely; group lending method, targets women, offers graduated loans and their interest rates are higher than traditional banks (Ruben, 2007). Microfinance programs deal with small groups who receive loans. Each member is liable and takes responsibility of a member who defaults on a particular loan. Joint liability is normally taken as the collateral (ibid). This model uses group peer pressure where loans are given to individuals in groups of four to seven people (Trocaille, 2005). Microfinance targets mostly women because women are better in loan repayment than men (Proscovia, 2013; Magali, 2013 and Yegon et al., 2013). Reuben (2007) noted that women are better managers in loans’ utilization in businesses and therefore improve their livelihoods. MFIs usually have a policy of graduated loans whereby the beneficiary of the loan starts small loans after which she/he gets another high amount when the repayment is done (Ruben, 2007). Interest rates charged by MFIs are relatively high, Grameen bank charges 20 percent due to overhead and transaction costs (Ruben, 2007). According to Orrick et al., (2012), interest rates charged by MFIs are higher than other banks in order to cover costs. It is expensive to provide small loans to many customers than larger amounts to few clients. Interest rates for MFIs have the highest being 43 % on reducing balance and 42% flat rate (AMFIK, 2013)

Empirical Literature

Field and Pande (2008) conducted a study on repayment frequency and default in micro-finance in India and examined repayment schedule and its effect on loan default. They found out that repayment schedule were not significant on client delinquency. Baibani et al., (2012) did assessment on creation of non-performing loans (NPLs) in Iran. The study used loan performing documents in housing facilities during 2006 – 2011 in Mozandavan’s Bank-e-Maskan and analyzed their data by use of chi-square tests. The study measured the duration of payment, collateral, average quality of account, bounced check, other deposits and credit background against the NPL. The findings of the study indicated that all the independent variables tested were significant except ‘having other deposits’. The study recommended use of updated information on customer’s records and the need for an integrated database in all available branches. Tundui and Tundui (2013), in a study on microcredit, micro enterprising and repayment myth in Tanzania examined determinants of loan repayment among women microcredit clients. The findings of the study identified business skills and business management as key factors in influencing loan default. Zohair (2013) carried out an empirical study on factors affecting loan repayment on micro-borrowers in Tunisia, addressing the socio-economic and demographic characteristics and their influence on loan repayment. The results identified that visits to micro-projects, loan amount, distance

between the borrower and the institution, and borrower's credit history as statistically significant in causing loan default. Wang and Zhou (2011) sought to find out whether additional financial indicators predict the default of SME in China by taking samples from the SME database in Beijing. A binary logistic regression model with forward stepwise method was used to predict the loan default. The findings of the study indicated that the main features of the enterprise, such as duration of the cooperation with banks was significant in predicting loan default while traditional financial indicators such as profitability, growth, liquidity, solvency and operational capacity of the business were not significant in predicting the default of SMEs. Yegon et al., (2013) examined the determinants of seasonal loan default among beneficiaries of a state owned agricultural loan scheme in Uasin Gishu, Kenya and tested socio-economic characteristics of the respondents and their influence on loan default. In their study, personal factors and farming factors were significant whereas facility factors were insignificant in determining loan default. Munene and Guyo (2013) addressed factors influencing loan default in MFIs in Imenti North, Kenya and tested business characteristics such as; type of business, age of the business, number of employees, business location business manager and profits among MFIs. The sample involved both MFIs and loan beneficiaries. The findings showed that type of business, age of business, number of employees and business profit were significant in influencing loan default. Munene and Guyo left out other factors such as borrower's characteristics, institutional characteristics and loan characteristics on MFIs which the current study wished to test. Gatimu et al., (2014) conducted a study assessing institutional factors contributing to loan defaulting in MFIs in Kenya and tested various variables, such as credit policies, loan recovery procedures, and loan appraisal process. The study was limited to MFIs and a similar study was important on FIs disbursing government credit which the current study sought to do. Murathi and Weda (2015) investigated on critical factors in repayment of C-YES in Kirinyaga Central District, Kenya and specifically tested factors on time lapse between application and receipt of loan. They also tested the effect of loan size and availability of resource on influence loan repayment of C-YES funds.. The results also showed that management of groups and training of members were contributory factors to loan default. Kamanza (2014) in a study on microcredit among women entrepreneurs in Msambweni County, Kenya investigated the effect of business failure, gender roles, borrower's entrepreneurial skills and diversion of loan on loan default. The study focused on women entrepreneurial enterprise development fund (WEDF) borrowers with 74 women groups targeted. The results of the study indicated that gender roles, diversion of loan and business entrepreneurial skills were significant in determining loan default. The study addressed causes of loan default of public entrepreneurial funds (PEFs) among women entrepreneurs in one county in Kenya. The current study addressed institutional characteristics that cause loan default within MFIs and FIs in Kenya that were not tested in the study.

Theoretical Framework

The study was based on two theories; Pecking Order and Grameen Bank Model. Pecking order emphasizes the need for business funding preference by considering internal funds first after which a business can go for external funding while Grameen Bank Model examines group lending as an appropriate method of reaching many poor people that use social collateral. Pecking order emphasizes that a firm should source for internal funds before getting external funds which should be low risk debt financing and share financing. The theory is based on information asymmetry in that the managers of the firms know the business, its risks and value more than investors. According to Frank and Goyal (2009), pecking order can be generated from 'taxes, agency or behavior considerations'. The theory fails to consider cases of default and other factors that cause loan default other than asymmetric information when external financing is sourced. This is a gap that this study sought to fill in and come up with appropriate recommendations.

Grameen Bank is one of the oldest microfinance institutions in Bangladesh founded by Mohammed Yunus in the 1970s to provide micro credit. Grameen Bank uses groups that are formed voluntarily consisting of five members (Shukran and Rahman 2011). The Bank started by providing loans to two people first and after they repay, the third and fourth get the loan and later the fifth. The rate of interest of Grameen Bank ranges from 0% - 20% (income generating loans are charged 20 percent, housing loans go for 8 per cent, student loans at 5 per cent and beggars (struggling individuals) at 0 percent (Levin, 2012). However the rates charged in Kenya are relatively higher than those in Bangladesh going as far as 43 percent (AMFIK, 2013). The group provides social collateral and reduces cases of adverse selection and reduces monitoring costs since all members are held responsible (Ngehveru and Nembu, 2010). Grameen Bank Model advocates for group financing that minimizes administration costs instead of individuals loans whose cost of monitoring is high, majority of the clients are women since they form the largest population worldwide and encourages saving from the group. The study adopted some aspects of the Grameen Bank model such as; training of clients receiving loans, use of laid down procedures and regulations, close monitoring of the loan repayments, payments schedules and credit history of the borrower. This study examined more factors other than group lending such as; MFIs and FIs characteristics and their influence on loan default that the model does not investigate as illustrated in Table 2.2.

Table 2.2: Comparison of Models

Model	Institution covered	Aspects of the model
Grameen bank Model	MFIs	loan default of MFIs depends mainly on group lending factors
Researcher's model	MFIs and FIs	Loan default depends on loan conditions, business, MFIs and FIs characteristics and individual characteristics

Conceptual Framework

The conceptualization of this research attempted to link loan default, the dependent variable, to the independent variables. The independent variable used in study was institutional characteristics. Institutional characteristics are factors that involve approval procedures, loan disbursement and follow up by MFIs and FIs.

This relationship is illustrated in Figure 2.1.

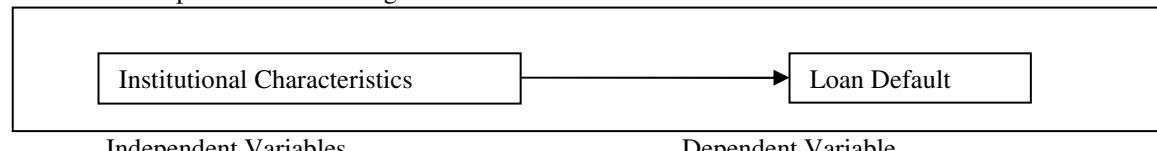


Figure 2.1: Conceptual Framework

Source: Author

Operational Framework

In this study, MFIs and FIs characteristics were measured in terms of: credit appraisal, training programs, monitoring/collection loan officer's experience and management information system (MIS), default signals, visits to clients and loan portfolio. The Figure 2.2 depicts the operational framework that summarizes these parameters.

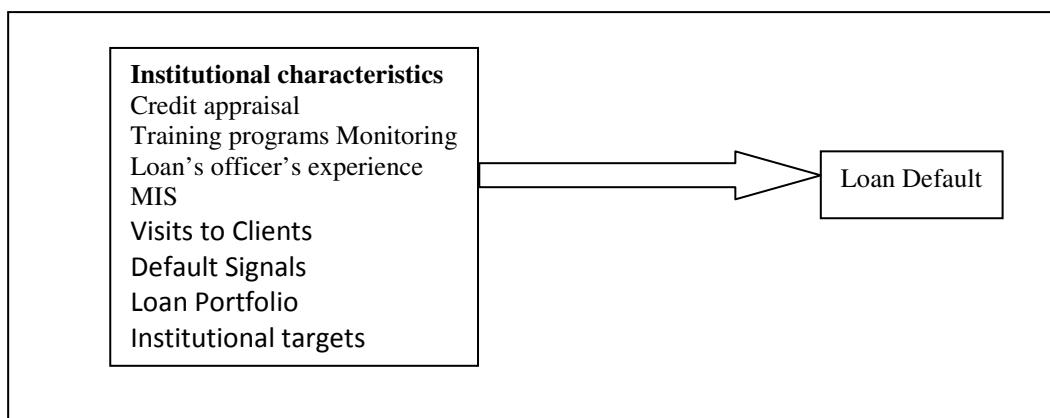


Figure 2.2: Operational Framework

Source: Author

Institutional Characteristics

Several theories have been advanced by many researchers on the effect of MFIs characteristics on loan default that the study examined. Some of these studies include; Gatimu et al., (2014) who measured the following independent variables of MFIs on loan default; credit policies, initial loan appraisal process and loan recovery methods. They used a sample of 59 MFIs and questionnaires were administered to 48 respondents. They found all the three factors significant in causing loan default. The study recommended the needs of MFIs to test on 'accuracy, honesty, collaterals, capacity and cash flow' of the borrowers to determine their credit worthiness. They emphasized on the need to have well formulated policies to reduce loan defaults. A study done by Moti et al., (2012) on the effectiveness of credit management system on loan performance in MFIs measured some independent variables such as credit terms, client appraisal, credit risk control measures and credit collection policies. The study was done in Meru County on 14 MFIs and use of questionnaires administered to 70 credit officers. The study found out that high involvement of credit officers and customers was significant, in

formulating credit terms, affects loan repayment performance, higher interest rates increase loan default, credit risk controls were significant and collection policies and their impact greatly affect MFIs loans.

Onyeagocha et al., (2012) in MFIs in South East States of Nigeria studied the determinants of loan repayment and tested the relationship of institutional factors on loan repayment. They did a multistage sampling technique with a sample of 36 MFIs and a sample of 12 MFIs per state (selecting 4 from these categories; ROSCAs, Community Banks, NGO, MFIs, and formal institutions). Results from the study revealed that the informal sector portrayed a better picture in loan repayment than the other three sectors and the factors that proved significant were; outreach, weather, shocks, duration of training, size of loan and loan officer's experience.

Warue (2012) in Kenya tested on MFI specific factors and their effect on loan default and found out that management information systems, outreach and promotion materials and MFIs taking responsibility on business and loan appraisals of the clients rather than the clients was positively significant in influencing loan performance. She recommended that aggressive strategies at the application and follow up stages were key factors in promoting loan performance.

Monitoring is important as the current and potential exposures change both with time and movements in the variables underlying. MFIs have to ensure loans are paid per the schedule. Udo (2008) in Nigeria observed that the issue of accessibility and sustainability of credit has been affected strongly by poor enforcement of credit contracts, poor performance on loan recovery and with a lot of government interference. Visitation by MFIs' officials improves saving and increases transportation cost to those in the rural areas and opportunity costs (Olagunju and Adeyemo, 2007). Frequent visits are good though they are also expensive to the MFIs (ibid). Collection policy is important since some clients are slow payers and non-payers to reduce bad debts (Kariuki, 2010). Provision of non-financial service such as training to the borrowers has an impact on repayment performance and those without any training have high chances of default (Roslan and Zaini, 2009). MFIs have a role in provision of literacy and health lessons to the clients (Godquin, 2004).

Appraisal of clients is important since it examines Character, Capacity, Collateral, Capital and Conditions which are commonly called the 5 Cs in trying to know the clients in depth to avoid cases of default (Moti et al., 2013; Carter et al., 2007). Moti et al., and Carter et al., noted that loan officers use 5 lending criteria namely; personal characteristics of the borrower, terms of loan, business characteristics, loan officer's written plan on assumptions made and information for further requests. Poor assessment on the clients' ability to pay led to a crisis in India in 2010 (Rai, 2011; Biswas, 2010). It was noted in India that there were multiple borrowers, the high interest rates charged by MFIs were up to 60%, there was excessive pressure to recover loans, promoters in the industry were out to make excessive profits, loan diversion was rampant and a lot of indebtedness was noted. At times microcredit lending decisions made by loan officers was based loan officer's experience and his feelings over the market at that point in time (Appiah, 2011). Such an informal procedure was bias, inconsistent and was subjective therefore increasing loan default risk (ibid). Some lending procedures demanded that organizations identify those applicants who were likely to default and put in measures by though vetting the borrower and monitoring closely loan repayments after the client receives the loan (Ralton, 2003). These credit terms should reduce costs associated with credit and therefore help MFIs derive maximum benefits from the loan (Anderson, 2002) They should also determine borrower's risk by ensuring that the borrower facilitates his repayment as agreed (Stiglitz and Weiss, 2007). It is important that every organization matches the loan terms to the borrowers' needs by making it easier for clients to access loans and provide friendly terms for them to repay on time and fully meet their obligations (George, 2008).

Crabb and Killer (2006) statistically found out that 'the level of risk in an MFI loan portfolio is significantly influenced by the choice of lending methodologies, borrower's gender, micro economic factors and macro economic factors that affect the ability of borrower's to repay loans. Peer pressure effectively increases the borrower's rate to repay loans (Gomez and Santor, 2008). In group model members are the guarantors of loan disbursed to their members and any subsequent loans depend on successful payment of disbursed loans usually done weekly (Ledgerwood, 1998). Groups are formed through self selection of its members in order to curb loan default since members know each other (Ben Sultane, 2008). Hauge (1999) suggested that monitoring of groups' projects is important and members are advised to be prudent on funds allocated to them on productive activities. Tundui and Tundui (2008) observed that group lending model has various advantages; helps guarantee the borrowers without tangible evidence, screens members as a result of asymmetry information, it assists MFIs to classify risks and identify them, tests cases of diversion, facilitates loan enforcement in members' repayment, reduces transactions for MFIs and provides insurance of borrower's. Peer pressure increases loan payments. However, it has caused humiliation, stigmatization and social tensions in local communities (Prete, 2002).

Prete's emphasis that if one member fails to pay, this causes for sanction to all. Tundui and Tundui also noted some challenges such as; time wastage as a result of weekly meeting, refusal of some members to meet their credit obligations with the assumption that it's a liability guarantee for all, members are forced to pay for the defaulters and also hinders new entrants to MFIs since they fear paying for the defaulters. Ben (2008) in a study on determinants of successful group loan repayment in Tunisia, revealed that groups with members who share the same profession, have low default rates as a result of sharing of ideas, advice and project development. This meant that monitoring such members is easy due to the homogeneity of the group. Those groups that have the same sex registered improved loan repayment performance while those with both sexes posed challenges in exchanging ideas and therefore high possibility of loan default.

A study by Gatimu et al., (2014), sought for to find the overall impact of institutional factors on loan default noted that poor recording keeping and lack of strict payment policies influenced loan default. The respondents agreed that loan appraisal, poor loan recovery processes due to corrupt loan officers contributed significantly to default. He found the variables; credit policy, loan recovery process and loan appraisal process statistically significant in causing loan default.

Training in entrepreneurship development should be done in conjunction with provision of microcredit in order to change clients' mindsets and boosts their confidence in their abilities to start and manage business (Tundui and Tundui, 2013). Tundui and Tundui noted in Tanzania that women borrowers of micro credit who had been trained in business management skills experienced fewer problems in settling their loans. This therefore calls for MFIs and FIs to facilitate training of women on entrepreneurial skills before and after accessing the loans which help to boost their businesses and promote business expansion. This is in agreement with Magali (2013) who noted that training borrowers only in technical education did not help in reducing loan default but impacting business and entrepreneurial skills to them increases efficiency and proper allocation of resources therefore able to increase loan repayment. Sileshi et al., (2013) noted in their econometric model that farmers who constantly consult development agents have better market information and production technologies than those who hardly consult. This results into high motivation to repay loans by 4.59 percent and increases the rate of non-defaulting by 8.25 percent. Majeeb Pasha and Negese found training negatively related to loan default and increased training reduces the loan default by 0.016 which concurs with Kamanza (2014).

In view of the issues raised above, these studies cited by Gatimu et al., (2014), Warue (2012), Onyeagocha et al., (2012), Moti et al., (2012), Kariuki (2010) and George (2008) addressed a number of MFI factors that influence loan repayment, however some parameters were not raised such as; institutional targets, training and development, issuing of default signals and loan products' portfolio and their influence on loan repayment which is a gap that the current study wishes to fill. This present study integrates some factors influencing loan default discussed above in MFIs by other researchers and incorporates the same in FIs. The study also used multistage method of sampling as used by Onyeagocha et al., (2012). Literature review indicates that that many researchers examined MFIs only and not FIs which this study examined. Thirdly the study sought to answer the question, is there any significant difference between the factors causing loan in MFIs and FIs? Therefore a comparison was made on the factors that influence loan default in MFIs and FIs that the above studies did not consider.

Loan Default

This is the dependent variable which was measured by Portfolio at Risk (PAR) in MFIs. It is calculated by 'dividing the outstanding balance of loans, with arrears over 30 days, plus restructured loans by the outstanding gross portfolio as at a certain date) (Herrera, 2003). This ratio shows loans in arrears that are likely to go unpaid, experts recommend that PAR should not exceed 5 percent which is taken as a benchmarking figure that rates the quality of any institution (any amount over 5 percent calls for concern) (United Nations, 2011).

Research Gap

From literature review on loan default as discussed earlier , it was noted that Abdullah et al., (2011), Field and Pande (2008), Mokhtar et al., (2012), Zohair (2013), and Oyo and Ondo (2007) limited their studies to borrower's characteristics institutional characteristics in MFIs and FIs which this study wished to explore. Tundui and Tundui (2013) missed out on institutional characteristics MFIs while Nawai and Mohd Shariff (2013) left out on PEFs in FIs which the study sought to address. It is important to note that very few studies have been done in Kenya on microcredit default. Ngahu and Wagoki (2010), Warue (2012), and Bichanga and Aseyo (2013) examined mainly group lending and economic factors as causes of loan default within MFIs while Munene and Guyo (2013) and Kamanza (2014) limited their studies to testing loan conditions of FIs. The study examined into detail the effect of MFIs characteristics such as; loan monitoring and follow up and loan

procedures. These variables were tested for both MFIs and FIs in nine counties. A comparative analysis was made on causes of loan default among MFIs and FIs which to the best of the researcher's knowledge has not been done by any other.

3. Research Methodology

The study was based on positivism philosophy which adopts a quantitative approach to investigate phenomena that is based upon values of reason, truth and validity hence focuses on facts gathered through observations and experience and easily proved by quantitative methods (Warwick and Lininger, 1995). According to Dudovskiy (2013), in positivism, the researcher plays the role of data collection and interpretation through an objective approach and the research findings are usually observable and quantifiable. This implies that the researcher is independent from the study and has no provisions for human interests within the study. According to Crowther and Lancaster (2008), positivism adopts a deductive approach and concentrates on facts.

This research used a descriptive survey in order to thoroughly investigate the population through the sample in relation to the factors that contribute to loan default in MFIs and FIs in Kenya. It was able to investigate interrelationships of variables involved in the study. According to Mugenda and Mugenda (1999) descriptive survey is used to investigate populations by selecting samples to analyze and discover occurrences. It also provides numeric descriptions of part of the population and explains events as they are. The research used cross-sectional survey which was undertaken in various cases and at one point in time. Both quantitative and qualitative methods were used to address the stated objectives. The study targeted a finite population of all 294 MFIs registered and operating in Kenya as per AMFIK (2013) and 76 FIs registered as per WEF (2014). This study used purposeful sampling 36% of MFIs and 53% of FIs in support of Cochran. In Kenya all MFIs are 294 and 76 FIs distributed all over the country and therefore multistage sampling technique was used to narrow down on the regions and branches. According to Mugenda and Mugenda a sample of 10% or above is representative of the population while Cochran (1977) suggests that a sample of 30% is sufficient. The sample consisted of 40 FIs out of 76 FIs and 106 MFIs out of a population of 294 MFIs as shown in Table 3.1.

Table 3. 1; Sample Size of MFs and FIs

Regions	Counties	MFIs	FIs
Nairobi	CBD	25	10
Rift Valley	Kajiado, Nakuru, Uasin Gishu	31	10
Central	Nyeri, Nyandarua, Kirinyaga,	23	10
Eastern	Meru and Machakos	27	10
TOTAL		106	40

In order to investigate the research objectives in chapter one, both primary and secondary data were used. The first stage was to do an extensive search of articles, reports on MFIs in general using internet and academic databases. Secondary data was collected from AMFIK (2013) as the body that represents MFIs in Kenya and FIs from WEF (2014) in order to ensure relevance to the research problem and provide a clear understanding of the existing knowledge in the problem. A questionnaire with closed and open questions was completed by loan officers who were randomly selected and responses presented on five Likert scale. The researcher carried out a pilot study to measure validity of the instrument which was not included in the analysis. Prior to launching a full-scale study, the questionnaire was pre- tested in MFIs in Mukurweini Town to ensure its workability in terms of: structure, content, flow and the time it takes to complete it

Descriptive statistics were used and also inferential statistics used to draw conclusions about existing relationship and differences in the research results already found. Factor analysis was used to estimate the most significant variables which were tested in the model. A multiple regression model and Pearson correlation was used to establish relationship among variables. Data was presented by use of tables, bar graphs and pie charts and the sample statistics were used to make conclusions about the population.

Factor analysis was performed on all parameters that measured each independent variable to examine the extent of correlations, and summarize and reduce the less important variables as per their factor loadings. Exploratory Factor Analysis was performed to measure internal consistency /reliability of the measuring instrument (questionnaire) by calculating Cronbach alpha coefficients. The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity were used to test the suitability of the data and number of factors to be extracted. KMO index (ranges between 0 to 1) with at least 0.50 considered suitable while Bartlett's

Test of Sphericity is considered significant at $p < 0.05$ (Hair et al., 1995). The correlation statistical technique was used to explain the degree of association between the variables. Multiple regressions were performed on all the parameters against the dependent variable in order to test the stated null hypothesis; H_{03} : Institutional characteristics are not significant in influencing loan default within MFIs and FIs. Regression analysis is formed from correlation coefficients of independent variables that is expressed in form of $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ which is an equation for the best line of fit.

4 .Data Analysis, Presentation and Interpretation

Descriptive Data Analysis

The survey had targeted to interview 106 MFIs and 40 FIs. The participants who responded were 89 MFIs and 36 FIs. The response rate of 84 % and 90% respectively was very good and therefore representative of the population. The study revealed gender parity in MFIs and FIs. In MFIs 68.5 % were males while in FIs the males constituted 63%. This implies that majority of the loan officers were men. Majority of MFIs clients were individuals accounting for 53.93% as shown in Figure 4.1. This explains that possibility of default may be high since individuals of microloans do not use collateral unlike self-help groups that use social collateral i.e. its members are used as guarantors against any loan given to a member. These credit institutions should lay more emphasis on group funding other than individual funding to reduce defaults. This concurs with Tundui and Tundui (2008) who observed that group lending model has various advantages in that it assists MFIs to classify and identify risks, tests cases of diversion and facilitates loan enforcement in members' repayment.

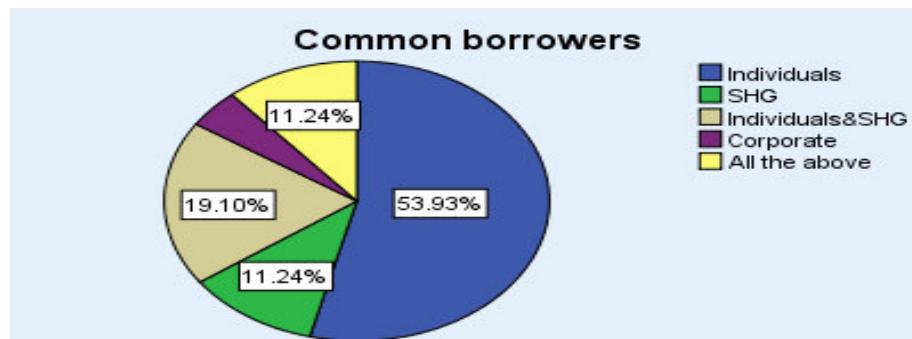


Figure 4. 1: MFIs Clients

In MFIs, the respondents with less than 2 years experience constituted 33.7% and 2-3 years 39.3 % and 23% above 3 years. Therefore those with less than 3 years experience constituted 73 % while in FIs majority of the respondents had less than 2 years experience (58.3%), 2-3 years was 25% and over 3 years was 16.7%. This implies that 83.3% had worked as loan officers for less than three years. This study concurs with Gatimu et al., (2014). This is line with Onyeagocha et al., (2012) that the higher the loan officer's experience, the higher the possibility of recovering greater amount of loan. An experienced officers knows "when, how and where to pressurize the borrowers to pay also is able track records their records". Age of respondents in MFIs indicated that less than 25 years was 37.1%, 26-35 years was 55.1% and over 35 presented 7.9 %. These two groups constituted 92.1% while the same groups in FIs had the following percentages; those with less than 25 years were 19.4% and 26-35 years were 72.2%, both groups constituted 91.6 % and those over 35 % presented 8.4 %. The implies that most loan officers are less than 35 years which is a clear indication that most loan officers offering microcredit in MFI and FIs are the youth and coupled with little experience as found out in the study may result to high default rates in these institutions.

The average default rate for MFIs in the year 2014 was 6.91% which is relatively high while that one for FIs was at 6.25. This was slightly lower than for MFIs .The bar graph shows the average loan default among the MFIs for the last three years (2012-2014). The highest number of institutions had a default rate between 4 -9% consisted of 50.6 % and 10-14 were 12.4 %. According to United nations (2011), the accepted world default rates is less than 5%, this implies that the credit institutions need to take critical measures to reduce this trend.

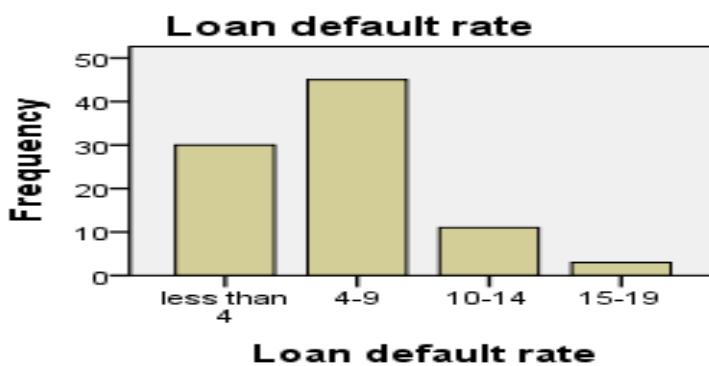


Figure 4. 2: Loan Default Rate

It was observed from that majority of the borrowers default during the first disbursement (42.7%) and “beyond the second disbursement” (47.2%) as shown in Table 4.2 on the most defaulted disbursements. This is consistent with Pollio and Abuodie (2010) in his study in Ghana that loan repayment among repeat borrowers deteriorate with time compared with new borrowers.

Table 4. 1: Most Defaulted Disbursements

	Frequency	Percent
First disbursement	38	42.7
Second disbursement	9	10.1
Beyond Second Disbursement	42	47.2
Total	89	100.0

Descriptive Statistics on MFIs characteristics

From the Table 4.3 below, parameters of MFIs characteristics displayed the following descriptive statistics. It was evident that the key factors as per the mean were; visits to clients (4.36), clients screening (4.31), loan monitoring (4.28), loaners' appraisal experience (4.24), adherence to loan procedures (4.17), training and development of borrowers (4.11), and variety of loan products (4.09), prompt loan disbursement (3.90) and officers' involvement in procedure's formulation.

Table 4. 3: Descriptive Statistics on MFIs characteristics

	Mean	Std. Deviation	Variance
Loan Monitoring	4.28	.674	.454
Training and development	4.11	.760	.578
Prompt loan disbursement	3.96	.964	.930
Clients' screening	4.31	.632	.400
Loaners' appraisal experience	4.24	.675	.455
Institutional targets	3.33	1.156	1.336
Officers involvement in loan procedures' formulation	3.90	1.012	1.024
Variety of loan products	4.09	.748	.560
Adherence to loan procedures	4.17	.843	.710
Visits to clients	4.36	.678	.460

Validity and Reliability Tests

The composition and characteristics of the sample were analyzed using descriptive statistics, whereas the construct validity and reliability of the measuring instrument were respectively examined by performing exploratory factor analysis and calculating Cronbach alpha coefficients. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy tested the suitability of the data for factor analysis. Table 4.4 shows KMO which measured 0.644 and Bartlett's test of Sphericity with a p value of 0.000. This implies that the data was suitable for factor analysis and was in order for us to extract reliable factors.

Table 4. 4: KMO and Bartlett's Test

KMO and Bartlett's Test			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			.644
Bartlett's Test of Sphericity	Approx. Chi-Square		975.249
	df		496
	Sig.		.000

Testing hypothesis

The objective of the study was to explore the influence of institutional characteristics on loan default in MFIs and FIs and therefore test the null hypothesis that stated; H_0 : Institutional characteristics are not significant in influencing loan default within MFIs and FIs. The results after regression against the independent variables on MFIs are shown in Tables 4.7 to 4.9. The model summary in MFI's, projected an Adjusted R Square of 0.601 as shown in Table 4.7. This means MFIs' characteristics account for 60.1% of variations in dependent variable (loan default) which is good predicting loan default in MFIs.

Table 4. 7: MFIs Characteristics-Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 ^a	.601	.532	1.91697

The overall model after an F test was performed was found to be useful or significant with $F = 8.73$ and $p = 0.000$ (at 5% significant level) as shown in Table 4.8. This implies that there is some linear relationship between the independent variables and dependent variable.

Table 4. 2: MFIs Characteristics-ANOVA

ANOVA ^b					
Model		Sum of Squares	df	Mean Square	F
1	Regression	160.403	5	32.081	8.730
	Residual	106.569	83	3.675	
	Total	266.971	88		

Table 4.28 shows results of t-tests performed of the independent variables. A t-test performed produced significant variables whose p values were less than 0.05 at 5 % significance level. These were; LM- loan monitoring ($p = 0.000$), PL-prompt loan disbursement ($p = 0.000$), DS- default signals ($p = 0.018$), VP-variety of loan products (0.040) and ALP-adherence to loan procedure ($p = 0.30$). Therefore a multiple regression model generated for MFIs was $Y = 1.924 + 6.730 LM + 6.453PLD + 5.128 DS + 2.046 VLP + 3.002 ALP$.

Table 4.9: MFIs Characteristics-Coefficients^a

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
			B	Std. Error		
1 (Constant)	1.924	.892			2.157	.034
Loan Monitoring (LM)	6.730	.151	.695		-.857	.000
Prompt loan disbursement (PLD)	6.453	.089	.667		-.890	.000
Default signals (DS)	5.128	.138	.598		.625	.018
Variety of loan products (VLP)	2.046	.121	.545		.378	.040
Adherence to loan procedures (ALP)	3.002	.112	.502		.020	.030
Visits to clients(VC)	1.216	.080	.403		2.715	.007
Use of M.I.S (MIS)	.513	.396	.456		1.822	.069

In FIs, the institutional characteristics with high factor loadings were regressed against loan default .The results in Table 4.10 indicated an Adjusted R Square of 0.156% of loan default. This implies that the independent variables accounted for 15.6% variations in Y and therefore 84.6 % was uncounted for in the model. Therefore are weak predictors of loan default in FIs.

Table 4.10: FIs Characteristics-Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395 ^a	.156	.022	.753

Analysis of variance in Table 4.11 results produced an F value of 4.381 and p=0.000 which implies that the overall model was significant. This indicated that the joint contribution of the independent variables was significant in predicting the dependent variable.

Table 4. 3: FIs Characteristics-ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	4.516	12	.376	4.781	.000 ^a
Residual	22.706	23	.987		
Total	27.222	35			

The individual variables after t-test were performed as shown in Table 4.12 and only two variables were significant. These were LM- loan monitoring (p = 0.001) and SC-client's screening (p = 0.020) at 5% significance level. The rest of the variables were insignificant. A model generated from the results for FIs was $Y = -1.717 + 0.095 LM + 0.020 CL$.

Table 4.12: FIs Characteristics-Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.717	4.275		-.402	.692
Loan Monitoring (LM)	.095	.639	.043	.148	.001
Training and development(TD)	-.112	.366	-.075	-.305	.763
Prompt loan disbursement(PLD)	-.189	.195	-.228	-.971	.342
Clients' screening(CL)	.250	.429	.159	.584	.020
Adherence to loan procedures(ALP)	-.253	.450	-.145	-.563	.579
Visits to clients (VC)	-.061	.422	-.035	-.144	.887

In summary, the two models generated to explain the influence of institutional characteristics on loan default were; $Y = 1.924 + 6.730 LM + 6.453PLD + 5.128 DS + 2.046 VLP + 3.002 ALP$ for MFIs and $Y = -1.717 + 0.095 LM + 0.020 CL$ for FIs. These coefficients of these models are non zeros and therefore there is sufficient evidence to reject the null hypothesis which implies that institutional characteristics influence loan default within MFIs and FIs.

Discussion of Results

It was noted that lack of proper follow up through visits to clients in MFIs is a cause of loan default. These findings are supported by Karankye in Ghana (2014). Frequent visits to the borrowers' business premises give loan officers an opportunity to assess business operations. Close monitoring of loan repayments and timely default signals will reduce default. Majeeb Pasha and Negese (2014) reported that if all factors are held constant, follow up and visits to clients reduce loan default rate by 0.102. Nawai and Mohd Shariff (2013) concur with their findings that loan monitoring has influence on loan delinquent among good borrowers. Lack of supervision increases loan diversion consequently increasing loan defaults and therefore there is need to remind clients through alert signals (Asongo and Idama, 2014). However Pollio and Abuodie (2010) disagree with these findings and suggest that loan monitoring increases default rate by 48% as a result of loan officers' pressure to borrow more loans and collusion of loan officers leading to fraud.

Training borrowers and impacting necessary business skills before clients receive loans, is important and leads to proper utilization of loans into profitable businesses. A study by Bichanga and Aseyo (2013) and Roslan and Karim (2009), confirm that training borrowers improves incomes which eventually reduce loan default. Entrepreneurs trained in business management, book keeping, entrepreneurial skills are likely to experience less difficulties in loan repayment. This concurs with Tundui and Tundui (2013). Lack of training on business skills lead to high loan default (Roslan and Mohd Zaini, 2009). Awunyo-Vitor (2012) in Ghana finds training negatively significant at 1% probability level and suggests that training reduces loan default by 96.7 % compared

to those who are untrained. Godquin (2004) argues that provision of non-financial services such as; training, basic literacy and health services positively influence loan repayment performance.

Strict adherence to loan procedures by loan officers is very important and should strictly screen and follow the laid down procedures to avoid rewarding undeserving cases. Warue (2012) suggests that MFIs should employ aggressive strategies at the application stage to ensure that the appraisal process is done properly. Good credit management employed by MFIs minimizes loan default and improves MFIs sustainability (Addo and Twum, 2013). In FIs adherence to loan procedures was not significant since disbursement criterion is already laid down in these institutions by government.

5. Summary of Findings, Conclusion and Recommendations

This study sought to explore causes of microcredit default within MFI's and FIs disbursing public entrepreneurial funds in Kenya in order to enhance loan recovery and viability of lending institutions. The study sought to explore the influence of Institutional characteristics on loan default in MFIs and FIs. Data was collected by use of questionnaires that targeted loan officers in MFI's and FI's disbursing public entrepreneurial funds. The response rate of respondents was 84 % for MFIs and 90% for FIs which was representative of the population. The study revealed gender parity in MFIs and FIs in that in MFIs males were 68.5 % while in FIs males constituted 63% respectively. This implied that majority of loan officers were mainly men. It was observed that majority of the borrowers defaulted in the first disbursement (42.7%) and "beyond the second disbursement" (47.2%). It is important that MFIs do not assume that the client is able to pay back any loan whether first or the proceeding loan. The due process of screening should be followed at all times. Age of respondents in MFIs indicated those less than 35 years constituted 92.1% while in FIs constituted 91.6 %. This is a clear indication that most loan officers offering microcredit in MFI and FIs are the young people. Loan officers with less than 3 years experience as loan disbursements in MFIs comprised of 73 % and 83.3% in FIs. This may be taken to be mean little experience and high staff turnover resulting to high default rates in these institutions.

Factor analysis was performed to reduce the number of variables and relationships of extracted factors. They were examined by means of correlation analysis. Finally, F tests, t-tests and regression were carried out to examine the relationship between hypothesis and the extracted factors. There was a correlation between constructs in the conceptual framework as measured by the instrument. The study tested the hypothesis; H_{03} : Institutional' characteristics are not significant in influencing loan default within MFIs and FIs. An exploratory factor analysis (EFA) was conducted to assess the discriminant validity of 33 items measured to predict factors that caused loan default in Microfinance Institutions (MFIs) and FIs. Kaiser's criterion, stipulating that factors with Eigen values greater than one be retained, was used to determine the number of factors to be extracted.

The null hypothesis was tested that stated; H_{01} : Institutional characteristics were not significant in influencing loan default. A linear equation was generated that predicts the relationship between MFIs characteristics and loan default. For MFIs, $Y = 1.924 + 6.730 LM + 6.453PL + 5.128 DS + 2.046 VC + 3.002ALP$ where; LM represents loan monitoring, PL (Prompt loan disbursement), DS (default signals), VC (visits to clients) and ALP(adherence to loan procedure) while for FIs, $Y = -1.717 + 0.095 LM + 0.020 CS$ where; LM (loan monitoring) and CS (clients screening). This implied a positive relationship between institutional characteristics and loan default for within MFIs and FIs hence the null hypothesis was rejected. The conclusions made from the study reflects that credit officers should to strictly follow the appraisal process, check on laid down loan conditions, thorough screen process and monitor borrower's business operations to avoid loan default

This study came up with various recommendations to MFIs', FIs, stakeholders and policy makers to avert the rising cases of loan default in these institutions. There is need to adopt effective methods to increase supervision/monitoring of the micro business and business operations to ensure disbursed funds are put into productive activities. Training and development programs are important before and after disbursing the loans to give technical advice where need be. It is paramount that credit officers are equipped with business and financial management skills in order to pass the same to clients. These skills help clients to use the credit into income-generating activities. It also allows fully involvement of financial institutions at the initial stage of any project, monitor the progress and possibly advice on the best marketing strategies of the products/ services.

Loan officers should do proper screening before granting loans. Borrowers' characteristics are very important in loan performance especially in FIs. Loan default can be reduced if proper screening is done thoroughly. Adequate monitoring procedures should apply to capture defaulters at an early stage. Institutions should come up with differentiated loan products as per their clients especially for government's credit where very few options

exist. Institutions should make use of Credit Reference Bureau (CRB) which exposes defaulters who are multiple borrowers; facilitates information sharing and reduces information asymmetry. CRB allows financial institutions to access clients' credit history and reduces credit risks. MFIs should embrace new technology in their operations where the clients can easily access loan balances and make installments at the comfort of their mobile phones. This reduces time wastage from their home to respective institutions to make installments. The overall government institutional framework should be improved to ensure public entrepreneurial funds are delivered promptly. There is need to reduce the bureaucratic procedures and conditions that are stringent and cause delays in releasing government funds.

Areas for Further Study

The researcher recommends the following areas for further study that were not covered by this study:

1. Explore other factors that cause loan default among government entrepreneurial funds that were not explained in the model.
2. There is need to do a comparative study on loan performance among MSEs that receive public funds and those receiving microcredit from MFIs.
3. The same study can be duplicated in the commercial banks and explore the four variables examined in this study.

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About the Author

The author is a Ph D finalist pursuing Business Administration and Management at Dedan Kimathi University of Technology, Nyeri, Kenya